

## Message Text

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43

ACTION EUR-12

INFO OCT-01 EA-09 ISO-00 EURE-00 SSO-00 NSCE-00 USIE-00

INRE-00 SP-02 AID-05 EB-07 NSC-05 CIEP-02 SS-15

STR-04 OMB-01 CEA-01 CIAE-00 COME-00 FRB-01 INR-07

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PRS-01 /095 W

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FM AMEMBASSY LONDON

TO TREASURY DEPT WASHDC IMMEDIATE

SECSTATE WASHDC IMMEDIATE 6422

INFO AMEMBASSY BONN

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

USMISSION OECD PARIS

USMISSION EC BRUSSELS

UNCLAS LONDON 16182

DEPARTMENT PASS FRB

TREASURY FOR DONALD E. SYVRUD, OASIA

E.O. 11652: N/A

TAGS: EFIN, UK

SUBJECT: MONEY MARKET DEVELOPMENTS

SUMMARY: IN THE WAKE OF THE OCT. 7 BANK OF ENGLAND ANNOUNCEMENT OF THE 15 PERCENT MINIMUM LENDING RATE (MLR) AND THE CALL FOR AN ADDITIONAL 700 MILLION POUNDS IN SPECIAL DEPOSITS, FINANCIAL INSTITUTIONS BEGAN TO ADJUST THEIR INTEREST RATES TO CHANGED CONDITIONS. ALL OF THE FOUR MAJOR CLEARING BANKS HAVE ANNOUNCED 1.5 - 2 PERCENT INCREASES IN THE BASE LENDING RATE AS WELL AS 2 PERCENT

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RISE IN THE INTEREST RATES OFFERED ON TIME DEPOSITS.

SIMILARLY. THE BUILDING SOCIETIES HAVE INCREASED THE RATE ON HOME MORTGAGES BY 1.75 PERCENT. HM TREASURY ANNOUNCED NEW LONG-TERM TAP STOCKS. END SUMMARY.

1. BARCLAYS BANK LED OFF A SERIES OF ANNOUNCEMENTS BY THE FOUR MAJOR CLEARING BANKS. IT RAISED ITS BASE LENDING RATE TO 14 PERCENT FROM ITS PREVIOUS LEVEL OF 12 PERCENT. THIS REFLECTS THE WHOLE AMOUNT OF THE INCREASE IN MLR. BARCLAYS ALSO RAISED ITS RATE ON 7-DAY NOTICE AND OTHER TIME DEPOSITS TO 10.5 PERCENT FROM THE PREVIOUS 8.5 PERCENT. LLOYDS BANK, NATIONAL WESTMINSTER BANK AND THE MIDLAND BANK, THE OTHER CLEARERS, RAISED THEIR BASE RATES TO 13.5 PERCENT FROM 12 PERCENT AND THEIR TIME DEPOSIT RATES FROM 8.5 PERCENT TO 10.5 PERCENT. A LLOYDS SPOKESMAN HELD OPEN THE OPTION OF INCREASING THE BASE RATE AT A LATER DATE IF MARKET CONDITIONS SHOULD WARRANT. NATIONAL WESTMINSTER STATED THAT ITS BASE RATE INCREASE WAS CALCULATED IN ORDER TO MINIMIZE THE IMPACT ON ITS CUSTOMERS.

2. FOLLOWING AN OCT. 8 MEETING IN LONDON. THE ASSOCIATION OF BUILDING SOCIETIES ANNOUNCED THAT MORTGAGE INTEREST RATES WOULD RISE TO 12-1/4 PERCENT FROM 10-1/2 PERCENT EFFECTIVE IMMEDIATELY.

3. IN THE MONEY MARKETS, SHORT-TERM RATES WERE CONVERGING TO ABOUT 14.5 PERCENT. THE AVERAGE RATE AT THE TREASURY BILL AUCTION WAS 14.3807 PERCENT COMPARED WITH 12.3782PCT.LAST WEEK; THIS IS CONSISTENT WITH A 15 PERCENT MLR. YIELDS ON LONGER DATED GILTS CONTINUED TO RISE, CURRENTLY STANDING ABOUT 16 PERCENT COMPARED WITH 13 PERCENT 24 HOURS AGO. HMTREASURY ANNOUNCED TWO LONG-DATED TAP-STOCKS TOTALLING 1 BILLION POUNDS. ONE ISSUE TOTALLING 600 MILLION POUNDS MATURING IN 1998. BEARS A 15.5 PERCENT COUPON AND IS PRICED AT 96 WITH A YIELD TO MATURITY OF 16.16 PERCENT. THE OTHER ISSUE, TOTALLING 400 MILLION POUNDS MATURING IN 1982, BEARS A 3 PERCENT COUPON AND AT 70 IS PRICED TO YIELD 10.78 PERCENT TO MATURITY. THE SECOND ISSUE IS DESIGNED TO BE AT-

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TRACTIVE TO INVESTORS IN HIGHER INCOME BRACKETS SINCE ANY YIELDS ON DISCOUNTS HELD OVER ONE YEAR ARE ELIGIBLE TO RECEIVE SPECIAL TAX TREATMENT ON CAPITAL GAINS. STERLING MOVED IN A NARROW RANGE AROUND \$1.6650 BEFORE EASING SLIGHTLY TO 1.6625 BY LATE AFTERNOON.

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